

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Kalkaska Public Transit Authority	County Kalkaska
Fiscal Year End 9/30/06	Opinion Date 12/5/06	Date Audit Report Submitted to State 2/17/07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) James M. Anderson, P.C.		Telephone Number 989-563-2450		
Street Address P.O. Box 255		City Roscommon	State MI	Zip 48653
Authorizing CPA Sign: 	Digitally signed by James M. Anderson, CPA DN: cn=James M. Anderson, CPA, c=US, o=James M. Anderson, P.C., email=jma@m33access.com Date: 2007.02.17 13:56:59 -05'00'	Printed Name James M. Anderson, CPA		License Number 1101017419

**KALKASKA PUBLIC TRANSIT AUTHORITY
AUDIT REPORT
YEAR ENDED SEPTEMBER 30, 2006**

KALKASKA PUBLIC TRANSIT AUTHORITY

TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Statement of Net Assets	8
Statement of Revenues, Expenses, and Changes in Retained Earnings	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-19
Supplemental Information:	
Schedule 1 - Operating Revenues	20
Schedule 2 - Operating Expenses	21-22
Schedule 3 - Nonoperating Revenues	23
Schedule 4 - Schedule of Contributed Equity	24
Schedule 5 - Capital Contracts	25
Schedule 6 - Expenses by Contract and General Operations	26
Schedule 7 - Net Eligible Costs Computations of General Operations	27
Schedule 8 - Detail of Ineligible Expenses and Revenues	28
Auditor's Disclaimer Regarding Schedules 9 and 10	29
Schedules 9 and 10 - Mileage Data, Vehicle Hours and Passengers	30-31
Compliance Reports:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	32-33



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

INDEPENDENT AUDITOR'S REPORT

December 5, 2006

Board of Directors
Kalkaska Public Transit Authority
Kalkaska, MI 49646

I have audited the accompanying financial statements of the business-type activity and major fund, which collectively comprise the basic financial statements of the Kalkaska Public Transit Authority as of and for the year ended September 30, 2006, as listed in the table of contents. These statements are the responsibility of the Transit's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and major fund of the Kalkaska Public Transit Authority, as of September 30, 2006, and the changes in financial position and cash flows for the year ended in conformity with accounting principles generally accepted in the United States of America.


In accordance with *Government Auditing Standards*, I have also issued my report dated December 5, 2006, on my consideration of the Kalkaska Public Transit Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in conjunction with this report in considering the results of my audit.

MEMBER MACPA and AICPA

Page 2
Board of Directors
Kalkaska Public Transit Authority
December 5, 2006

The management's discussion and analysis on page 3-7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Kalkaska Public Transit Authority financial statements. The accompanying financial information listed as supplemental information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in my opinion, is fairly stated, in all material respects, in relation to the financial statements, taken as a whole.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

KALKASKA PUBLIC TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2006

Using this Annual Report

Our discussion and analysis of the Kalkaska Public Transit Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended September 30, 2006. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenue, Expenses, and Changes in Net Assets provide information about the activities of the Authority and present a longer-term view of the Authority's finances.

Overview of the Financial Statements

This annual report consists of three parts: Management's Discussion and Analysis (this section), the basic financial statements, and an additional section that presents supplemental information and schedules. The basic financial statements include two kinds of statements that present different views of the Authority:

- . The first two statements are financial statements that provide both long-term and short-term information about the Authority's overall financial status. These statements report information about the Authority, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid. The two statements report the Authority's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities – this is one way to measure the Authority's financial health or position.
- . The remaining statement is a Statement of Cash Flows to demonstrate the activities of the Authority as it relates to cash flows from operating activities, cash flows from noncapital financing activities, cash flows from capital and related financing, and cash flows from investing activities.

Reporting the Transit Authority as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and change in Net Assets report information about the Authority, as a whole, and about its activities in a way that helps answer the question of whether the Authority, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Authority's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets regardless of when cash is received and paid.

KALKASKA PUBLIC TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

The two statements, mentioned above, report the Authority's net assets and how they have changed. The reader can think of the Authority's net assets (the difference between assets and liabilities) as one way to measure the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Authority you need to consider additional non-financial factors such as changes in the County's property tax base, the condition of the Authority's vehicles, and changes in the laws related to the operating assistance received from the Federal and State government.

Financial Analysis of the Transit Authority as Whole

The Authority's net assets increased approximately 2%, or \$56,392, from \$2,710,876 to \$2,767,268 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Net Assets

The overall financial position improved in 2006. The unrestricted net assets increased by \$100,022 and the net contributed equity and investment in capital assets decreased by \$43,630. The primary reasons for the overall increase was the increase of \$91,368 in capital grants in 2006 and a net decrease in operating expenses of \$151,302.

The net assets as of the year ended September 30, 2006, are as follows:

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Current and Other Assets	\$1,515,697	\$1,747,419	\$ 231,722	15.29
Capital Assets	<u>1,249,247</u>	<u>1,195,617</u>	<u>(53,630)</u>	<u>(4.29)</u>
Total Assets	<u>2,764,944</u>	<u>2,943,036</u>	<u>178,092</u>	<u>6.44</u>
Current Liabilities	41,090	169,556	128,466	312.64
Noncurrent Liabilities	<u>12,978</u>	<u>6,212</u>	<u>(6,766)</u>	<u>(52.13)</u>
Total Liabilities	<u>54,068</u>	<u>175,768</u>	<u>121,700</u>	<u>225.08</u>
Net Assets				
Contributed equity	634,752	579,681	(55,071)	(8.67)
Invested in Capital Assets	614,495	625,936	11,441	1.86
Unrestricted	<u>1,461,629</u>	<u>1,561,651</u>	<u>100,022</u>	<u>6.84</u>
Total Net Assets	<u><u>\$2,710,876</u></u>	<u><u>\$2,767,268</u></u>	<u><u>\$ 56,392</u></u>	<u><u>2.08</u></u>

KALKASKA PUBLIC TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

Changes in Net Assets

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Operating Revenue				
Charges for Services	\$ 169,307	\$ 165,589	\$ (3,718)	(2.19)
Nonoperating Revenue				
Taxes Levied for Authority	146,379	155,705	9,326	6.37
State of Michigan Operating Grants	275,007	231,704	(43,303)	(15.74)
Federal Operating Grants	85,002	99,783	14,781	17.38
County Grants	9,785	-0-	(9,785)	(100.00)
Capital Grants	103,628	194,996	91,368	88.16
Interest	23,825	20,411	(3,414)	(14.32)
Gain on Sale of Fixed Assets	<u>3,320</u>	<u>3,500</u>	<u>180</u>	<u>5.42</u>
Total Revenue	<u>816,253</u>	<u>871,688</u>	<u>55,435</u>	<u>6.79</u>
Operating Expense				
Salaries and Wages	399,395	291,680	(107,715)	(26.96)
Fringe Benefits	175,986	139,806	(36,180)	(20.55)
Depreciation	267,139	250,584	(16,555)	(6.19)
Other	<u>124,078</u>	<u>133,226</u>	<u>9,148</u>	<u>7.37</u>
Total Operating Expense	<u>966,598</u>	<u>815,296</u>	<u>(151,302)</u>	<u>(15.54)</u>
Income (Loss)	(150,345)	56,392	206,737	137.50
Beginning Net Assets	<u>2,861,221</u>	<u>2,710,876</u>	<u>(150,345)</u>	<u>(5.25)</u>
Ending Net Assets	<u>\$2,710,876</u>	<u>\$2,767,268</u>	<u>\$ 56,392</u>	<u>2.08</u>

KALKASKA PUBLIC TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

Capital Asset and Debt Administration

At September 30, 2006, the Authority had \$1,195,617 invested in capital assets. This amount represents a net decrease (including additions and deductions) of \$53,630 or 4.29% as follows:

	<u>2005</u>	<u>2006</u>	<u>Total Percentage Change 2005-2006</u>
Capital Assets Not Being Depreciated			
Land	\$ 10,000	\$ 10,000	0.00
Subtotal	<u>10,000</u>	<u>10,000</u>	<u>0.00</u>
Capital Assets Being Depreciated			
Building	1,179,468	1,181,868	0.20
Vehicles	1,367,881	1,499,043	9.58
Equipment	<u>241,069</u>	<u>243,027</u>	<u>0.81</u>
Subtotal	<u>2,788,418</u>	<u>2,923,938</u>	<u>4.86</u>
Total Capital Assets	<u>2,798,418</u>	<u>2,933,938</u>	<u>4.84</u>
Total Accumulated Depreciation	<u>1,549,171</u>	<u>1,738,321</u>	<u>12.20</u>
Total Net Capital Assets	<u><u>\$1,249,247</u></u>	<u><u>\$1,195,617</u></u>	<u><u>(4.29)</u></u>

Please refer to the notes of the financial statements for more detailed information.

KALKASKA PUBLIC TRANSIT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
SEPTEMBER 30, 2006

Economic Factors and Next Year's Budget

Kalkaska Public Transit Authority (KPTA) is a county wide transportation system which began operating in October, 1984. It was reorganized under P.A. 196 of Public Acts of 1986 in 1989. KPTA has a five (5) person Board of Directors. Board members are appointed as follows: One (1) person is appointed by the Village of Kalkaska Board. One (1) person is appointed by the Kalkaska Township Association. Two (2) members are appointed by the Kalkaska County Board of Commissioners, and one of which must be a high school senior and the fifth member is appointed by the KPTA Board of Directors.

The KPTA Board of Directors hold their meetings on the third Thursday of each month with a starting time of 8:00 A.M. Special meetings are held when needed and posted in accordance to Michigan law. KPTA business is discussed, acted upon and necessary action taken. Monthly reports are reviewed and acted upon.

KPTA is a financially strong governmental agency. If State and Federal funding was decreased, we feel that we could continue to operate business as usual. If a total shut down is required, KPTA feel that it would be an organized reduction allowing employees to seek other employment while not suffering a loss of income for any period of time.

KPTA has received \$600,000 in Federal and State funding to add a fueling station and a washing facility. However, we have found that this amount is not enough to complete these two projects. We have decided to go ahead with the wash bay and put the fueling station on hold. We have not asked for additional funding at this time due to the financial condition of both the Federal and State Government. We realize that by not asking for this additional amount (\$700,000) it will not balance either the State or Federal Budget but we feel that we will be doing our part in moving in the right direction.

Annual expenses are always a concern of KPTA staff, management and the Board of Directors. Our projected expense will show 8% increase over the previous year. However this is only a projected amount, KPTA has never spent beyond their means and will not do so in FY 2007/2008.

Ronald C. Kea, Director

KALKASKA PUBLIC TRANSIT AUTHORITY
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

ASSETS

Current Assets:

Cash and investments	\$ 1,609,292
Accounts receivable	21,522
Grants receivable	96,742
Prepaid expenses	<u>19,863</u>

Total Current Assets	1,747,419
----------------------	-----------

Property and equipment, less accumulated depreciation	<u>1,195,617</u>
---	------------------

Total Assets	<u>2,943,036</u>
--------------	------------------

LIABILITIES

Current Liabilities:

Accounts payable	140,312
Accrued payroll	<u>29,244</u>

Total Current Liabilities	<u>169,556</u>
---------------------------	----------------

Long-Term Liabilities:

Compensated absences	<u>6,212</u>
----------------------	--------------

Total Long-Term Liabilities	<u>6,212</u>
-----------------------------	--------------

NET ASSETS

Contributed equity	579,681
Invested in Capital Assets, net of related debt	625,936
Unrestricted	<u>1,561,651</u>

Total Net Assets	<u>\$ 2,767,268</u>
------------------	---------------------

The accompanying notes are an integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006

Operating Revenues	
Charges for services	
Fare box and special fares	\$ 161,063
Vehicle maintenance	<u>4,526</u>
Total operating revenues	<u>165,589</u>
Operating Expenses	
Salaries and wages	291,680
Fringe benefits	139,806
Services	4,204
Materials and supplies	82,826
Utilities	20,212
Casualty and liability insurance	19,040
Miscellaneous	6,944
Depreciation	<u>250,584</u>
Total operating expenses	<u>815,296</u>
Operating income (loss)	<u>(649,707)</u>
Non-operating Revenues (expenses)	
Property taxes	155,705
Federal	99,783
State	231,704
State and Federal capital grants	194,996
Interest/investment income	20,411
Gain on sale of fixed assets	<u>3,500</u>
Total non-operating revenues	<u>706,099</u>
Change in Net Assets	56,392
Net Assets - October 1, 2005	<u>2,710,876</u>
Net Assets - September 30, 2006	<u><u>\$ 2,767,268</u></u>

The accompanying notes are a integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS
FOR YEAR ENDED SEPTEMBER 30, 2006

Cash flows from operating activities	
Cash receipts from operations	\$ 168,577
Cash payments for supplies and services	(31,482)
Cash payments for employee services and fringes	<u>(433,929)</u>
Net cash provided (used) by operating activities	<u>(396,834)</u>
Cash flows from noncapital financing activities	
Property taxes	155,705
Federal operating grants	99,783
State operating grants	<u>242,714</u>
Net cash provided (used) by noncapital financing activities	<u>498,202</u>
Cash flows from capital and related financing activities	
Federal/State capital grants	194,996
Purchase of fixed assets	(81,436)
Sale of fixes assets	<u>3,500</u>
Net cash provided (used) by capital and related financing activities	<u>117,060</u>
Cash flows from investing activities	<u>20,411</u>
Investment income	
Net cash provided (used) in financing activities	<u>20,411</u>
Net increase (decrease) in cash and cash equivalents	238,839
Cash and Cash Equivalents - October 1, 2005	<u>1,370,453</u>
Cash and Cash Equivalents - September 30, 2006	<u><u>\$ 1,609,292</u></u>

The accompanying notes are an integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY
STATEMENT OF CASH FLOWS (CONTINUED)
FOR YEAR ENDED SEPTEMBER 30, 2006

Reconciliation of operating income
to net cash provided by operating activities:

Operating income (loss)	<u>\$ (649,707)</u>
-------------------------	---------------------

Adjustments to reconcile operating income
to net cash provided by operating activities:

Depreciation	250,584
Decrease (increase) in accounts receivable	2,988
Decrease (increase) in prepaid expenses	(6,881)
Increase (decrease) in accounts payable	13,604
Increase (decrease) in accrued liabilities	4,323
Increase (decrease) in due to other governmental units	(4,979)
Increase (decrease) in compensated absences	<u>(6,766)</u>

Total adjustments	<u>252,873</u>
-------------------	----------------

Net cash provided (used) by operating activities	<u><u>\$ (396,834)</u></u>
--	----------------------------

The accompanying notes are an integral part of the financial statements.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2006

NOTE A - DESCRIPTION OF THE REPORTING ENTITY

The Kalkaska Public Transit Authority was created on October 1, 1987 to provide transit services to the residents of Kalkaska County.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Kalkaska Public Transit Authority conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant policies.

Basis of Accounting - The accrual basis of accounting is followed.

Financial Reporting Entity - The Public Transit is required by Public Act 51 of the State of Michigan to have a separate audit performed of its operations. This financial report has been prepared to meet this state requirement.

In compliance with GASB statement 14, these financial statements are included in the County's (oversight unit) Basic Financial Statements as an Enterprise Fund.

Fixed Assets and Depreciation - Fixed assets are stated at cost or fair market value at date of gift. Depreciable fixed assets are depreciated over the estimated useful life of the assets on the straight-line method.

Inventory - Inventories are recorded as expenditures in the year of purchase. The amounts on hand at September 30, 2006 were determined to be immaterial and have therefore not been recorded on the books.

Property Taxes - Property taxes are levied as of December 1 of each year and are due by the last day of the following February. The taxes are collected by the local units of government within the County and are periodically remitted to the Transit through the County during the collection period. The taxes are recognized as revenue in the year in which payment is due.

Contributed Capital - Prior to October 1, 2001, proceeds received from the State and the U.S. Department of Transportation, in accordance with contracts to purchase fixed assets were credited to Contributed Capital and were not recorded as revenue. Depreciation of fixed assets purchased with these funds is charged against Contributed Capital.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE C - VACATION AND SICK LEAVE

Vacation leave is earned in varying amounts depending on the number of years of service of an employee and is made available to the employees monthly. Vacation time does not accumulate from year to year except by mutual agreement between the Transit and the employees.

Sick leave is granted without pay upon application from the employee for illness or injury subject to the employer's right to request medical proof of disability.

The current portion of compensated absences benefits are recorded as expenditures.

NOTE D - CASH AND INVESTMENTS

Deposits are held at Northwestern Bank, Alden State Bank, Forest Area Credit Union and Huntington Bank. Michigan Compiled Laws, Section 129.91 authorizes the Authority to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities, and other obligations of the United States, or an agency or instrumentality of the United States; United States government of Federal agency obligation repurchase agreements; bankers' acceptance of United States banks, commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The risk disclosures for the Kalkaska Public Transit Authority's deposits, as required by GASB Statement No. 3, are as follows:

Cash	Financial Institution Balance	Carrying Balances
Imprest	\$ -0-	\$ 100
Deposits Insured (FDIC)	411,863	407,532
Deposits - Uninsured	696,474	696,473
Total Deposits and Imprest Cash	<u>\$ 1,108,337</u>	<u>\$ 1,104,105</u>
Investments	Market Value	Carrying Amount
Non-Categorized Investment Pool	\$ 505,187	\$ 505,187
Total Investments	<u>\$ 505,187</u>	<u>\$ 505,187</u>
Total Cash and Investments	<u>\$ 1,613,524</u>	<u>\$ 1,609,292</u>

The Transit Authority has investments with Allstate Financial Services, LLC in their municipal investment fund, which is an investment pool. The nature of the investment pool does not allow for risk categorization, which is in accordance with GASB Statement No. 3. The investments are considered to be cash equivalents.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE D - CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of mutual funds or government investment pools.

Interest Rate Risk

The Authority has not adopted a policy that indicates how the Authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of Credit Risk

The Authority has not adopted a policy that indicates how the Authority will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE E - PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Balance 10/1/05	Additions	Deductions	Balance 9/30/06
Land	\$ 10,000	\$ -0-	\$ -0-	\$ 10,000
Building and Improvements	1,179,468	2,400	-0-	1,181,868
Vehicles	1,367,881	192,596	61,434	1,499,043
Shop Equipment	133,294	-0-	-0-	133,294
Office Equipment	107,775	1,958	-0-	109,733
Totals	<u>\$2,798,418</u>	<u>\$ 196,954</u>	<u>\$ 61,434</u>	\$ 2,933,938
Accumulated Depreciation	<u>\$1,549,171</u>	<u>\$ 250,584</u>	<u>\$ 61,434</u>	<u>\$ 1,738,321</u>
Net Property and Equipment				<u>\$ 1,195,617</u>

Depreciation expense for fiscal year ending September 30, 2006 was \$250,584.

Useful lives of depreciable assets are as follows:

Buses & rehabilitations	3-10 years
Operations equipment	5-10 years
Garage equipment	3-15 years
Office equipment	3-10 years
Computer equipment	3-7 years
Building	4-20 years

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE F - EMPLOYEE PENSION PLAN

The Kalkaska Public Transit Authority participated in a defined contribution pension plan through December 31, 1999. The plan covered substantially all full-time employees of the Authority. The Authority contributed 7.5% of all employees base compensation to the plan annually. All benefits vested immediately and were credited to each participant's account. As of January 1, 2000 the Authority began participating in a defined benefit retirement plan administered by the Municipal Employees Retirement System (MERS). The entire balance in the previous pension plan of \$156,858 was transferred to the MERS on February 15, 2000. In addition, the Authority contributed \$327,951 to fund the buy in and first year contribution.

The Municipal Employees Retirement System of Michigan (MERS) is a multiple-employer statewide public employee retirement plan created by the State of Michigan to provide retirement, survivor and disability benefits, on a voluntary basis to the State's local government employees in the most efficient and effective manner possible. As such, MERS is a non-profit entity qualified under section 401(a) of the Internal Revenue Code, which has the responsibility of administering the law in accordance with the expressed intent of the Legislature and bears a fiduciary obligation to the State of Michigan, the taxpayers and the public employees who are its beneficiaries.

The passage of HB-5525/Act No. 220, with enactment on May 28, 1996, allowed the members of MERS to vote on and determine if MERS should become an independent public corporation. The vote resulted in approval to become independent of State control and MERS began to operate as an independent public corporation effective August 15, 1996. MERS issues a financial report, available to the public, that includes financial statements and required supplementary information for the system. A copy of the report can be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Employees of the Authority age 55 with 15 or more years of credited service are eligible for retirement. The plan adopted requires a 2% match from each participating employee's compensation.

The normal cost and amortization payments were determined using the entry age normal actuarial funding method. Actuarial assumptions include (a) projected salary and wage increases of 4.5%, (b) a net long-term investment yield rate of 8%, and (c) 1994 Group Annuity Mortality Tables.

Unfunded actuarial accrued liabilities are amortized as a level percent of payroll over 30 years.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE F - EMPLOYEE PENSION PLAN (CONTINUED)

Components of the Actuarial Accrued Liability at December 31, 2005, the last date of Annual Actuarial Valuation, are as follows:

Actuarial Accrued Liability:

Retirees and beneficiaries currently receiving benefits	\$ 884,055
Terminated employees (vested former members) not yet receiving benefits	90,972
Non-vested terminated employees	3,616
Current employee contributions - Including allocated investment income	43,625
Employer financed contributions - Including allocated investment income	<u>285,921</u>
Total Actuarial Accrued Liability	1,308,189
Net Assets Available for Benefits at Actuarial Value (Market Value \$966,185)	<u>992,334</u>
Unfunded Actuarial Accrued Liability	<u>\$ 315,855</u>
Unfunded Actuarial Accrued Liability as a Percent of fiscal 2005 covered payroll	<u>161%</u>

For fiscal year beginning October 1, 2007, the Annual Required Contribution is \$43,812. The Amortization Factor Used was 0.053632.

Trend information of Aggregate Accrued Liabilities follows:

Valuation Date	2005	2004	2003
Accrued Liabilities	<u>\$1,308,189</u>	<u>\$1,177,619</u>	<u>\$ 971,020</u>
Valuation Assets	<u>\$ 992,334</u>	<u>\$ 916,726</u>	<u>\$ 804,484</u>
Funded Percent	<u>76%</u>	<u>78%</u>	<u>83%</u>
Unfunded Actuarial Liability	<u>\$ 315,855</u>	<u>\$ 260,893</u>	<u>\$ 166,536</u>
Unfunded Actuarial Liability as a Percent of Annual Payroll	<u>161%</u>	<u>86%</u>	<u>47%</u>

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE G - STATE GRANTS

The Transit has contracted with the State of Michigan for grant funds for operations and equipment. All of the monies that the Public Transit is now eligible to receive have not been disbursed to them as the projects have not been completed. As of September 30, 2006, \$58,957 is still available to the Transit under those grants.

NOTE H - RISK MANAGEMENT / SELF-INSURANCE PROGRAMS

The Transit is covered under the County's participation in risk management pools and self-insurance programs. The Transit reimburses the County annually for its share of the premiums.

The County is exposed to risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The government manages its risk exposures and provides certain employee benefits through a combination of self-insurance programs, risk management pools and commercial insurance and excess coverage policies. Following is a summary of these self-insurance programs and risk management pool participation

The County participates in the Michigan Municipal Risk Management Authority (MMRMA) for general and automobile liability, motor vehicle physical damage and property damage coverages. The MMRMA was established in January 1980, pursuant to laws of the State of Michigan which authorize local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the Authority is to provide cooperative and comprehensive risk financing and risk control services. The MMRMA provides risk management, underwriting, reinsurance and claim review and processing services for all member governments pursuant to its charter.

The government makes annual contributions to MMRMA based on actuarial studies using historical data and insurance industry statistics. These contributions are paid from the general fund (i.e., the Insurance Fund) using premiums paid into it by other funds of the government. Such contributions as received by MMRMA are allocated between its general and member retention funds. Economic resources in the MMRMA's general fund are expended for reinsurance coverage, claim payments and certain general and administrative costs. The County is a state pool member and has deductibles which differ for each type of coverage.

The County has insurance coverage for workers' compensation provided by an independent insurance company which is licensed in the State of Michigan.

KALKASKA PUBLIC TRANSIT AUTHORITY
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2006

NOTE I - CONTRIBUTED CAPITAL

The Contributed Capital equity account represents funds provided by the federal Government and State of Michigan to the Authority, to purchase buildings, buses and equipment. Depreciation on buildings, buses and equipment purchased with State and Federal Funds is charged against this account. Depreciation of fixed assets purchased with Contributed Capital for the same period, was \$55,071.

Effective for fiscal years beginning after July 2000, and for all subsequent years, all State/Federal Capital Grants are recorded as revenue on the Statement of Revenues, Expenses and Changes in Retained Earnings. For the year ended September 30, 2006 \$194,996 of State/Federal Capital Grants were recorded as revenue.

Contributed Capital balances as of September 30, 2001 have not been restated, and will continue to be amortized over the lives of the related fixed assets until entirely depleted.

SUPPLEMENTAL INFORMATION

SCHEDULE 1

KALKASKA PUBLIC TRANSIT AUTHORITY
OPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2006

Operating Revenues

Demand-response (farebox)	\$ 161,063
Maintenance services	<u>4,526</u>
Total Operating Revenues	<u><u>\$ 165,589</u></u>

KALKASKA PUBLIC TRANSIT AUTHORITY
OPERATING EXPENSES
YEAR ENDED SEPTEMBER 30, 2006

	<u>Operations</u>
Labor	
Operators' salaries and wages	\$ 125,875
Dispatchers' salaries and wages	36,226
Fringe Benefits	77,697
Services	904
Materials and Supplies Consumed	
Fuel and lubricants	52,684
Tires and tubes	6,201
Other materials and supplies	-0-
Utilities	-0-
Casualty and Liability Costs	17,681
Miscellaneous Expenses	
Advertising	-0-
Other miscellaneous expenses	-0-
Depreciation & Amortization	<u>246,043</u>
Total Expenses	<u><u>\$ 563,311</u></u>

SCHEDULE 2

<u>Maintenance</u>	<u>General Administration</u>	<u>Total System</u>
\$ 56,346	\$ 73,233	\$ 255,454
-0-	-0-	36,226
27,007	35,102	139,806
-0-	3,300	4,204
-0-	-0-	52,684
-0-	-0-	6,201
23,941	-0-	23,941
-0-	20,212	20,212
-0-	1,359	19,040
-0-	4,569	4,569
-0-	2,375	2,375
<u>1,852</u>	<u>2,689</u>	<u>250,584</u>
<u>\$ 109,146</u>	<u>\$ 142,839</u>	<u>\$ 815,296</u>

SCHEDULE 3

KALKASKA PUBLIC TRANSIT AUTHORITY
NONOPERATING REVENUES
YEAR ENDED SEPTEMBER 30, 2006

Local Operating Grants	
Tax Levy	<u>\$ 155,705</u>
Subtotal Local Operating Grants	<u>155,705</u>
State of Michigan Operating Grants	
Formula Operating Assistance (Act 51)	<u>231,704</u>
Subtotal State of Michigan Operating Grants	<u>231,704</u>
Federal Operating Grants	
U.S. DOT Operating Grant - Section 5311	<u>99,783</u>
Subtotal Federal Operating Grants	<u>99,783</u>
Capital Grant Revenues	<u>194,996</u>
Interest Income	<u>20,411</u>
Gain (Loss) on Sale of Property	<u>3,500</u>
Total Nonoperating Revenues	<u><u>\$ 706,099</u></u>

SCHEDULE 4

KALKASKA PUBLIC TRANSIT AUTHORITY
SCHEDULE OF CONTRIBUTED EQUITY
YEAR ENDED SEPTEMBER 30, 2006

	<u>Federal</u>	<u>State</u>	<u>Total</u>
Balance, October 1, 2005	\$ 458,730	\$ 176,022	\$ 634,752
Deduct:			
Depreciation on assets purchased from contributed equity	<u>39,982</u>	<u>15,089</u>	<u>55,071</u>
Balance, September 30, 2006	<u>\$ 418,748</u>	<u>\$ 160,933</u>	<u>\$ 579,681</u>

SCHEDULE 5

KALKASKA PUBLIC TRANSIT AUTHORITY
CAPITAL CONTRACTS
YEAR ENDED SEPTEMBER 30, 2006

Grantor: Michigan Department of Transportation

	<u>Grant Award or Carry Over</u>	<u>Earned</u>	<u>Amount Remaining</u>
#2002-0057/Z4	\$ 192,745	\$ 192,596	\$ 149
#2002-0057/Z7	472	-0-	472
#2002-0057/Z10	<u>60,736</u>	<u>2,400</u>	<u>58,336</u>
Totals	<u>\$ 253,953</u>	<u>\$ 194,996</u>	<u>\$ 58,957</u>

SCHEDULE 6

KALKASKA PUBLIC TRANSIT AUTHORITY
EXPENSES BY CONTRACT AND GENERAL OPERATIONS
YEAR ENDED SEPTEMBER 30, 2006

	<u>Operations</u>	<u>Total</u>
Labor	\$ 291,680	\$ 291,680
Fringe benefits	139,806	139,806
Services	4,204	4,204
Materials and supplies	82,826	82,826
Utilities	20,212	20,212
Casualty and liability	19,040	19,040
Miscellaneous	6,944	6,944
Depreciation and Amortization	<u>250,584</u>	<u>250,584</u>
Total	815,296	815,296
Less		
Ineligible Expenses and Project Revenues	<u>228,336</u>	<u>228,336</u>
Total Eligible Expenses	<u><u>\$ 586,960</u></u>	<u><u>\$ 586,960</u></u>

SCHEDULE 7

KALKASKA PUBLIC TRANSIT AUTHORITY NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS YEAR ENDED SEPTEMBER 30, 2006

	2002-0057/Z11 Federal <u>Section 5311</u>	State Operating <u>Assistance</u>
Expenses		
Labor	\$ 291,680	\$ 291,680
Fringe benefits	139,806	139,806
Services	4,204	4,204
Materials & supplies	82,826	82,826
Utilities	20,212	20,212
Casualty & liability	19,040	19,040
Miscellaneous	6,944	6,944
Depreciation	<u>250,584</u>	<u>250,584</u>
Total Expense	<u>815,296</u>	<u>815,296</u>
Less Ineligible Expenses		
Depreciation	220,510	220,510
Audit Fee	3,300	-0-
Non Transportation Revenues	<u>4,526</u>	<u>4,526</u>
Total Ineligible Expense and Project Revenue	<u>228,336</u>	<u>225,036</u>
Net Eligible Expenses	<u>\$ 586,960</u>	<u>\$ 590,260</u>
Maximum Section 5311 Reimbursement (17.0%) (Not to exceed \$130,900)	<u>\$ 99,783</u>	
State Operating Assistance		<u>\$ 231,704</u>

Federal Section 5311 expenses are only those expenses incurred in providing service to non-urbanized areas. The State Operating Assistance is computed at 39.2545% of the current eligible expenses for the year ended September 30, 2006.

KALKASKA PUBLIC TRANSIT AUTHORITY
DETAIL OF INELIGIBLE EXPENSES AND REVENUES
SEPTEMBER 30, 2006

Depreciation

Depreciation accrued by public operators is ineligible according to UMTA C 9050, 1A, Page V-4. Depreciation of \$30,074 was expensed on items purchased with local funds which is considered an eligible expense.

Non Transportation Revenues

The Transit Authority provides maintenance services to several departments of Kalkaska County. The revenue from these services was considered ineligible for Section 5311 purposes.

Annual Audit Fees

Any Transit Agency that expends less than \$500,000 in federal funds must subtract out the cost of the annual audit as an ineligible expense under Section 5311. Therefore, \$3,300 has been treated as an ineligible expense for Section 5311 purposes.



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

December 5, 2006

Board of Directors
Kalkaska Public Transit Authority
Kalkaska, MI 49646

As required by the Michigan Department of Transportation, schedules of mileage, vehicle hours and number of passengers transported for the twelve months ended September 30, 2006, follows. This supplemental information was not audited by me and accordingly, I do not express an opinion on it. However, I have reviewed the compilation methods for mileage and passenger data and found them reliable.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "J M Anderson", is written over a light blue horizontal line.

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT

MEMBER MACPA and AICPA

KALKASKA PUBLIC TRANSIT AUTHORITY
MILEAGE DATA, VEHICLE HOURS AND PASSENGERS (UNAUDITED)
YEAR ENDED SEPTEMBER 30, 2006

	<u>Public Transportation Mileage</u>	<u>Vehicle Hours</u>	<u>Regular Passengers</u>
DEMAND RESPONSE			
1st Quarter	56,024	2,853	34,413
2nd Quarter	55,721	2,815	31,285
3rd Quarter	48,602	2,420	25,554
4th Quarter	<u>36,687</u>	<u>1,817</u>	<u>12,838</u>
TOTAL OPERATIONS	<u><u>197,034</u></u>	<u><u>9,905</u></u>	<u><u>104,090</u></u>

See Auditor's Disclaimer on Preceding Page.

<u>Senior Passengers</u>	<u>Handicapper Passengers</u>	<u>Senior Handicapper Passengers</u>
1,163	2,032	762
1,395	1,820	620
1,334	2,231	492
<u>1,030</u>	<u>1,864</u>	<u>593</u>
<u><u>4,922</u></u>	<u><u>7,947</u></u>	<u><u>2,467</u></u>



James M. Anderson, P.C.

CERTIFIED PUBLIC ACCOUNTANT

P.O. Box 255 • Roscommon, MI 48653

Phone: (989) 563-2450 • Fax: (989) 563-3471 • E-mail: jma@m33access.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

December 5, 2006

Board of Directors
Kalkaska Public Transit Authority
Kalkaska, MI 49646

Dear Board:

I have audited the financial statements of the business-type activity and major fund which collectively comprise the basic financial statements of the Kalkaska Public Transit Authority for the year ended September 30, 2006, and have issued my report thereon dated December 5, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

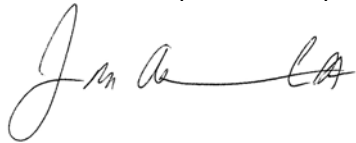
In planning and performing my audit, I considered Kalkaska Public Transit Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

MEMBER MACPA and AICPA

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kalkaska Public Transit Authority's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of the audit committee, management, and Board of Directors, and is not intended to be, and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read "James M. Anderson".

JAMES M. ANDERSON, P.C.
CERTIFIED PUBLIC ACCOUNTANT